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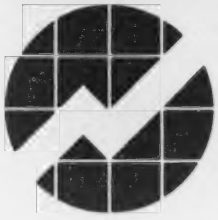

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KEDI ECONOMIC SURVEY

November 1, 1986

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SOURCES:

U.S.Department of Commerce first estimates of 1986:3, National Income and Product data, October 22, 1986.

Board of Governors of the Federal Reserve System release of the Index of Industrial Production, October 1986.

The latest available data on prices, employment, industrial and financial developments.

0.00 INTRODUCTION

0.01 EXECUTIVE SUMMARY

HIGHLIGHTS

Real Growth

Moderate growth projected into 1987 for many areas of the economy.

Prices

Oil prices have bottomed out. Look for slowly increasing consumer prices and business price increases. Inflation will be moderate.

Employment & Labor

Continuing downward trend for Agriculture and Construction. Increases for nondurable manufacturing and some mining.

Housing

Housing is winding down confirming KEDI's long standing prediction as Housing Starts and Permits Issued continue downward.

Automobiles

Production and sales for passengers will be down in 1987. Light trucks will carry the load for carmakers.

Budgets

First effects of tax reform appear in 1986:4 with larger sales and increase in orders for durables.

Income

Moderate growth of personal income and personal disposable income are predicted for 1987-1988.

Money & Credit

Data, again, show no relationship between the money supply, M1, and economic growth.

Interest Rates, Yields & Securities Prices

KEDI anticipates interest rates will bottom out in the third quarter of 1987.

O.O2 ASSUMPTIONS

		Last Update
1.	In 1986, the weighted price of oil will stabilize; in 1987 it will increase slightly and continue at that level in the 1988-1990 period.	April 1986
2.	A longer-lasting relaxation in monetary and credit policies that started in the second quarter of 1986, and will continue into 1987.	October 1986
3.	In 1987 and 1988 good crops in all main producing countries are anticipated.	September 1986
4.	Foreign trade with China will expand in 1987 and following years.	May 1986
5.	Average rates of growth in 1984-1990 in major industrial countries are anticipated: West Germany 3.1%; Italy 2.4%; Great Britain 2.5%; France 2,6%; Japan 2.9%.	Jan 1985
6.	No drastic changes in international relationships are anticipated.	Permanent Assumption

O.O3 FORECAST HIGHLIGHTS

* Table O.OO on page 3 shows forecast data of selected indicators of the November 1986 KEDI forecast.

* In 1986 and 1987 moderate growth is expected.

* An upward trend in 1987 is anticipated. It will continue throughout 1988 - 1990.

* Forecast data for 1986-1990 do not point to recession or major downturn.

* Financial outlook is optimistic.

* Federal budget deficits will keep declining in 1986 and the following fiscal years.

* This year's export-import gap will start closing to a more acceptable level.

TABLE 0.00

KEDI FORECAST HIGHLIGHTS

Data for 1986 and 1987 are on pages indicated below.

Indicator	Unit	1985	1989	1990	1991
Gross national	bil. 82$	3575.2	4041.6	4134.5	4254.4
product, p. 5	% change	2.9	3.4	2.3	2.9
Index of indust.	1977=100	125.0	139.3	143.6	148.5
prod., p. 5	% change	1.0	3.8	3.1	3.4
Capacity	%	79.7	81.3	80.5	79.8
utiliz., p. 5	% change	-.8	.5	-1.0	-.9
Unemployment	%	7.0	6.6	6.5	6.6
rate, p. 5	% change	-2.6	-3.0	1.0	.8
Private housing	mil.units	1.8	1.9	1.9	1.9
starts, p. 5	% change	4.5	5.8	-2.5	3.0
Car sales,	mil.units	10.9	11.3	11.2	11.7
p. 5	% change	-2.0	3.4	-.5	4.3
Implicit GNP	1982=100	112.3	126.0	130.5	135.8
price def., p. 9	% change	2.0	3.2	3.6	4.1
Consumer Price	1967=100	327.9	358.7	372.0	386.1
Index, p. 9	% change	1.8	3.5	3.7	3.8
Prod.Price Index	1967=100	289.8	328.9	343.7	355.0
(fin.goods),p.9	% change	-1.4	4.1	4.5	3.3
Federal Deficit	bil. $	-200.1	-151.2	-129.3	-108.9
p. 19	% change	15.1	-10.0	-14.5	-15.8
Personal Income	bil. $	3314.5	4263.7	4570.6	4886.0
p. 21	% change	5.1	7.0	7.2	6.9
Prime Rate	%	8.3	8.0	8.7	9.4
p. 25	% change	-12.2	6.9	9.0	8.4
Mortgage Rate	%	10.2	9.0	8.8	8.6
p. 25	% change	-19.6	3.6	-3.0	-2.1
Currency+demand	bil. $	663.5	793.3	846.5	895.6
deposits, p. 23	% change	11.8	6.2	6.7	5.8
Commercial+ind.	bil. $	519.6	578.1	594.9	607.4
loans, p. 23	% change	5.3	3.2	2.9	2.1
Raw steel	mil.sh.tons	88.1	89.3	90.0	90.2
production	% change	-4.8	-.1	.8	.2
Electric power	mil.kw-hr	2576	3243	3385.7	3558.4
production	% change	6.5	4.3	4.4	5.1
Bituminous coal	mil.sh.tons	896	939	973.1	984.0
production	% change	.1	1.5	1.3	1.5
Crude oil	avg. daily bbl.	3279	2115	2155.2	2187.5
output	% change	.9	-1.6	1.9	1.5
Retail sales	bil. $	1377.7	1719.9	1812.8	1934.3
p. 7	% change	6.2	5.8	5.4	6.7

Numbers in "% change" rows show percent changes over the previous year.

1.10 REAL GROWTH

See Table 1.11
Page 5

1986
FORECAST
DATA

Percent Change
from
October 1986
Forecast

+ 2.94%	Index Indus. Prod.
+ 2.68%	GNP
+ 2.12%	Autos
+ .82%	Capacity Util.
- 1.89%	Unemp-ploy-ment
- 4.03%	Private housing starts

MODERATE GROWTH PROJECTED INTO 1987 FOR MANY AREAS OF THE ECONOMY.

* Index of leading indicators rose from 179.3% in August to 180.1% in September. This indicates where the economy is headed 3-6 months down the road.

* Orders for durables:

  August: $103.85 bil.
  September: $108.99 bil.

  This is the largest single increase since November 1984. The increase is widespread over most industries. Excluding defense orders, nondefense orders rose by by 5.3%--a very good sign!

* Construction spending:

  August: $380.4 bil.
  September: $385.5 bil.

  This is the sharpest increase since April.

* Indications are that the turn-around in foreign trade is starting: Merchandise trade deficit narrowed to $112.56 bil. Imports of manufactured goods fell for the second consecutive month.

* Index of Industrial Production inched up by .1% in September. This increase is widespread as well.

TABLE 1.11
SELECTED INDICATORS I.
Quarterly data are seasonally adjusted at annual rates.

INDICATOR	GNP	Index of ind. prod**	Unem-ploy ment	Capacity util'n rate**	Private housing starts	Auto sales
Unit	$82 bil.	1977=100	%	%	mil.	mil.
Year & Qtr.						
1985*	3575.2	123.8	7.21	80.4	1.742	11.1
1986:1*	3655.9	125.0	7.06	80.0	1.990	10.7
2*	3683.3	124.4	7.16	79.6	1.905	10.7
3	3683.3	125.1	6.92	79.8	1.763	11.5
4	3695.7	125.7	6.95	79.5	1.624	10.6
YEAR	3679.6	125.0	7.02	79.7	1.821	10.9
% change from '85	2.9	1.0	-2.6	-.8	4.5	-2.0
1987:1	3724.3	126.4	6.94	79.7	1.614	10.3
2	3751.2	127.2	6.90	79.8	1.741	10.6
3	3784.1	128.6	6.81	79.4	1.841	11.0
4	3820.3	132.5	6.86	80.1	1.714	10.5
YEAR	3770.0	128.7	6.88	79.8	1.728	10.6
% change from '86	2.5	2.9	-2.1	.0	-5.1	-2.5
1988:1	3840.5	132.7	6.96	80.2	1.688	10.3
2	3867.2	133.5	6.87	80.4	1.810	10.8
3	3896.3	134.2	6.73	81.2	1.942	11.4
4	4030.7	136.4	6.62	81.8	1.870	11.2
YEAR	3908.7	134.2	6.79	80.9	1.828	10.9
% change from '87	3.7	4.3	-1.2	1.4	5.8	3.1

*Historical data.
**New, revised series

1.12 CONSUMER SPENDING AND RETAIL SALES

See Table 1.12 - page 7

1986 FORECAST DATA

Percent Change from October 1986 Forecast

+ 7.21%	Pers. Con. Exp. Services
+ 6.62%	Pers. Con. Exp. Durables
+ 4.38%	Retail Sales Total
+ 4.08%	Pers. Con. Exp. Nondurable
+ 3.06%	Retail Sales Nondurable
-10.18%	Retail Sales Durable

Forecast data for consumer spending in 1986:4 show healthy gains in nondurables and services sectors. Some slowing down in durables (autos only) after the September-October surge.

Forecast for 1987: STRONG consumer spending will continue, though not as vigorous as in 1986. SLOWING DOWN: Car sales, with purchases of parts up. Building materials and home furnishings and household applicanes UP (in 1987 people will not build as many houses, but will spend on repairs, extensions, and improvements.)

In 1987 look for MODERATE increases in spending for nondurables, such as shoes, textile and apparel.

Spending on SERVICES will be strong, mainly in repairs and maintenance of durables, fast food services, entertainment, travel and leisure.

Christmas sales in 1986 will be stronger than 1985, mainly in big ticket items.

TABLE 1.12

CONSUMER SPENDING AND RETAIL SALES

Quarterly data are seasonally adjusted at annual rates.

INDICATOR	*--Personal Cons. Expend.- Durables	Nondur-ables	Services	**------Retail Sales------* Total	Durables	Nondur-ables
Unit	bil.$	bil.$	bil.$	bil.$	bil.$	bil.$
Year & Qtr.						
1985*	359.2	905.1	1336.1	1377.7	511.6	866.2
1986:1*	360.8	929.7	1415.5	1410.8	526.4	884.4
2*	373.9	928.4	1428.1	1443.6	532.1	911.5
3	410.2	935.5	1453.6	1464.3	540.7	923.6
4	392.4	943.9	1469.9	1478.5	544.8	933.7
YEAR	384.3	934.4	1441.8	1449.3	536.0	913.3
% change from '85	7.0	3.2	7.9	5.2	4.8	5.4
1987:1	394.6	955.1	1494.2	1489.0	550.2	938.8
2	405.1	965.1	1501.3	1513.8	560.0	953.8
3	409.7	976.2	1531.3	1457.3	580.2	877.1
4	412.5	989.4	1569.8	1580.0	589.7	990.3
YEAR	405.5	971.5	1524.1	1510.0	570.0	940.0
% change from '86	5.5	4.0	5.7	4.2	6.3	2.9
1988:1	418.7	1022.6	1572.8	1589.7	585.4	1004.3
2	421.8	1037.1	1591.1	1614.3	595.7	1018.6
3	445.6	1052.4	1581.8	1639.5	609.8	1029.7
4	462.8	1069.6	1753.7	1659.1	620.2	1038.9
YEAR	437.2	1045.4	1624.8	1625.7	602.8	1022.9
% change from '87	7.8	7.6	6.6	7.7	5.7	8.8

1.13 REAL GNP

See Table 1.13
Page 9

1986
FORECAST
DATA

Percent Change
from
October 1986
Forecast

+ 4.58%	State Local Purch.
+ 2.84%	Pers. Cons. Expend.
+ 2.69%	GNP
+ 2.43%	Federal Govt. Purch.
+ .98%	Net Exports
+ .75%	Gross Private Dom. Inv.

FIRST ESTIMATE OF '986:3 GNP, RELEASED BY U.S. COMMERCE DEPARTMENT SHOWS 2.4% GROWTH COMPARED TO .6% IN 1986:2.

The composition of GNP is not as good as it should have been:

GOOD NEWS for change in business, non-farm inventories (in bil. 1982$):

1986:1	+37.0
1986:2	+11.0
1986:3	- 5.0

Inventories declined in general in the third quarter and not only in autos. Businesses have rebuilt their inventories, so expect inventories to go up in 1986:4. This means that the 1986:3 negative change in inventories has OPTICALLY decreased the GNP. In the fourth quarter inventories will go up pushing the GNP up with it.

No significant increase in expenditures of Federal Government on goods and services.

And now for some BAD news:

RECORD LEVEL FOR FOREIGN TRADE DEFICIT
(IN BIL. 1982 $)

1986:1	-125.9
1986:2	-153.9
1986:3	-164.6

Forecast data for 1986:4 and following quarters show that 1986:3 is the PEAK, and the deficit will start declining.

TABLE 1.13
REAL GNP
Quarterly data are seasonally adjusted at annual rates.

INDICATOR	*----------Gross National Product----------* Total	Pers. cons. expend.	Gross pvt.dom. investm.	Net exports	Fed. govt. purch.	State local purch.
Unit	$82 bil.	$82 bil.	$82 bil.	$82 bil.	$82 bil.	$82 bil.
Year & Qtr.						
1985*	3575.2	2324.5	647.7	-108.2	313.6	397.6
1986:1*	3655.9	2372.6	684.0	-125.9	320.4	404.8
2*	3683.3	2408.4	664.7	-153.9	328.9	413.3
3	3683.3	2450.4	648.6	-164.4	329.3	419.5
4	3695.7	2442.3	658.2	-160.4	334.6	421.0
YEAR	3679.6	2418.4	663.9	-151.2	328.3	414.6
% change from '85	2.9	4.0	2.5	39.7	4.7	4.3
1987:1	3724.3	2455.0	665.5	-154.2	335.6	422.4
2	3751.2	2461.6	671.4	-148.4	337.4	429.2
3	3784.1	2475.3	676.4	-142.6	338.5	436.5
4	3820.3	2496.7	680.3	-139.7	341.0	442.0
YEAR	3770.0	2472.2	673.4	-146.2	338.1	432.5
% change from '86	2.5	2.2	1.4	-3.3	3.0	4.3
1988:1	3840.5	2430.0	682.2	-138.4	342.6	445.1
2	3867.2	2525.6	684.8	-136.2	344.7	448.3
3	3896.3	2539.7	692.5	-133.6	346.5	451.2
4	4030.7	2666.5	693.4	-131.7	347.2	455.3
YEAR	3908.7	2551.3	688.2	-135.0	350.1	450.0
% change from '87	3.7	3.2	2.2	-7.7	3.5	4.0

*Historical data.

1.20 PRICES AND NOMINAL GNP

1.21 PRICES

See Tables 1.21 - page 11

1986
FORECAST
DATA

Percent Change
from
October 1986
Forecast

+ 4.24%	Producer Price Index
+ 4.19%	State Local Purch.
+ 3.11%	Pers. Cons. Expend.
+ 2.80%	GNP
+ 2.52%	Consumer Price Index
+ 2.40%	Federal Govt. Purch.

OIL PRICES BOTTOMED OUT.

LOOK FOR SLOWLY INCREASING

PRICES RESULTING IN CONSUMER

AND BUSINESS PRICE INCREASES.

INFLATION IN 1987-1988 WILL

BE MODERATE.

* CPI in September up by .3% (excluding prices of food and energy). This is the same as August.

* PPI in September (excluding prices of food and energy) remained at the same level as a year ago.

* Consumer inflation:
Main items pushing up prices in 1987-88 will be services. KEDI's forecast for prices of of all services calls for 1987 to go up by 5.9%, with 1988 up by 6.1%.

* Business inflation:
Prices of crude materials will go up by 4.8% in 1987, and 5.2% in 1988.
Prices of semi-finished products up by 3.2% in 1987, and 4.8% in 1988.

TABLE 1.21
PRICES
Quarterly data are seasonally adjusted at annual rates, unless otherwise stated.

INDICATOR	*---Indexes--* Cons. price index n.s.a.**	Prod. price index n.s.a.**	*-------Price deflators--------* Gross Nat'l Prod.	Pers. cons. expend.	Fed. govt. purch.	State local purch.
Unit	1967= 100	1967= 100	1982= 100	1982= 100	1982= 100	1982= 100
Year & Qtr.						
1985*	322.1	293.9	112.3	112.7	111.0	116.3
1986:1*	327.3	292.3	113.7	103.1	111.0	118.7
2*	326.5	288.3	114.0	103.5	111.8	119.3
3	328.2	288.4	115.0	114.3	111.1	120.3
4	329.5	290.2	115.5	114.9	112.1	121.5
YEAR	327.9	289.8	114.5	114.4	111.5	120.0
% change from '85	1.8	-1.4	2.0	1.5	.5	3.1
1987:1	331.5	294.6	116.1	115.8	113.2	122.3
2	334.9	300.2	117.0	116.7	114.3	124.1
3	337.9	305.3	118.1	117.9	115.8	125.6
4	340.3	308.2	119.2	119.0	117.1	127.7
YEAR	336.1	302.1	117.6	117.3	115.1	124.9
% change from '86	2.5	4.2	2.7	2.5	3.2	4.1
1988:1	343.5	311.3	120.6	124.0	118.2	128.9
2	345.7	313.8	121.5	120.8	119.5	130.0
3	347.2	317.9	122.1	121.3	120.7	132.4
4	349.8	320.7	124.0	123.2	122.3	134.2
YEAR	346.6	315.9	122.0	122.3	120.2	131.4
% change from '87	3.1	4.6	3.8	4.2	4.4	5.2

*Historical data.
**CPI: All Urban Consumers; PPI: Finished Goods.

1.22 NOMINAL GNP

See Table 1.22 - page 13

1986
FORECAST
DATA

Percent Change
from
October 1986
Forecast

+ 8.99%	State Local Purch
+ 6.06%	Pers. Cons. Expend.
+ 5.57%	GNP
+ 4.85%	Federal Govt. Purch.
+ 3.50%	Net Exports
+ 1.29%	Gross Private Dom. Inv.

ANOTHER MIXED BAG OF GOOD AND BAD NEWS IN DATA RELEASED BY U.S. COMMERCE DEPARTMENT FOR NOMINAL GNP:

In 1986:3, growth has resumed when compared to the slow down in 1986:2.
Federal Government spending on goods and services shows only small increase while inventories declined.

RECORD DEFICIT IN FOREIGN TRADE:

Indications are that the deficit has peaked in the third quarter. HOWEVER, do not expect any drastic improvements immediately as it will take the deficit a long time to decline significantly because:

* Imports of manufactured goods will keep declining at a very slow rate, and exports of manufactured goods will be improving at an even slower rate.

* In 1987, imports of oil will continue increasing with no drop in imports of crude materials.

Mr. Malcolm Baldrige, Secretary of Commerce, predicts a $30-$40 billion drop in 1987 in the trade gap, but this looks too rosey. KEDI expects a drop of around $12 billion in 1987 (as measured by the National Income Accounts) and another $20 billion drop in 1988.

TABLE 1.22
NOMINAL GNP
Quarterly data are seasonally adjusted at annual rates.

INDICATOR	*----------Gross National Product----------					*
	Total	Pers. cons. expend.	Gross pvt. dom invest.	Net exports	Fed. govt. purch.	State local purch.
Unit	bil. $	bil. $	bil. $	bil. $	bil. $	bil. $
Year & Qtr.						
1985*	3998.1	2619.1	661.1	-78.9	354.1	461.3
1986:1*	4156.8	2706.0	708.3	-93.7	355.6	480.5
2*	4174.0	2730.3	687.3	-104.5	367.7	493.1
3	4234.4	2799.3	674.7	-110.1	365.7	504.7
4	4268.5	2810.9	685.4	-109.7	375.1	511.5
YEAR	4214.9	2768.2	688.9	-104.5	366.0	497.5
% change from '85	5.4	5.7	4.2	32.4	3.4	7.8
1987:1	4323.9	2843.9	691.1	-107.6	379.9	516.6
2	4388.9	2871.5	704.4	-105.3	385.6	532.6
3	4469.0	2917.2	712.8	-101.2	392.0	548.2
4	4553.8	2971.7	715.8	-97.4	399.3	564.4
YEAR	4433.9	2901.1	706.0	-102.9	389.2	540.5
% change from '86	5.2	4.8	2.5	-1.6	6.3	8.6
1988:1	4631.6	3029.1	729.5	-90.6	405.0	573.7
2	4698.6	3155.7	734.3	-80.4	411.9	582.8
3	4757.4	3188.0	737.2	-75.2	418.2	597.4
4	4998.1	3405.2	741.6	-65.3	424.6	611.0
YEAR	4829.2	3207.2	735.6	-77.9	414.9	591.2
% change from '87	8.9	10.6	4.2	-24.3	6.6	9.4

*Historical data.

1.30 EMPLOYMENT AND LABOR

See Table 1.30 - page 15

1986 FORECAST DATA

Percent Change from October 1986 Forecast

+ 2.90%	Non-Agri.
+ 2.82%	Total Employed
+ 2.65%	Civilian Labor Force
+ 2.58%	Population
0.00%	Agriculture
- 1.89%	Unemployment rate

THE 1987 EMPLOYMENT PICTURE

AGRICULTURE - continuing downward trend.

CONSTRUCTION - Down in private housing, office and plant space. Up slightly in public projects and roads, bridges, and airport construction and repairs.

NONDURABLE MANUFACTURING - Main increments in foods and kindred products, paper and products, printing and publishing, chemicals and products, and petroleum and coal products, and plastics. FLAT in lumber and wood, and electrical and nonelectrical machinery. PROBLEMS will persist in primary metals.

MINING - Small increments in coal mining and stone and nonmetalic ores. DEPRESSED levels in metallic ores and gas extraction.

SERVICES - Strong increases in employment in repairs and maintenance, hotels, motels, restaurants, auxilliary services to the business sector. SMALL increments in banking, legal, medical, and educational services. FLAT in real estate and insurance.

TABLE 1.30
EMPLOYMENT & LABOR
Quarterly data are seasonally adjusted at annual rates.

INDICATOR	Population	Civil. labor force	*-------Employment-------* Total	Agri-cult.	Non-agric.	Unem-ployment rate
Unit	mil.	mil.	mil.	mil.	mil.	%
Year & Qtr.						
1985*	241.7	115.4	107.2	3.2	103.9	7.21
1986:1*	244.5	117.0	108.7	3.2	105.5	7.06
2*	245.9	117.7	109.3	3.2	106.1	7.16
3	247.3	118.4	110.2	3.2	104.1	6.92
4	249.8	118.9	110.6	3.1	107.5	6.95
YEAR	246.9	118.0	109.9	3.2	106.7	7.02
% change from '85	2.1	2.3	2.1	-.8	2.7	-2.60
1987:1	250.7	119.5	111.2	3.1	108.1	6.94
2	252.3	120.6	112.3	3.1	109.2	6.90
3	254.0	122.0	113.7	3.1	110.6	6.81
4	256.1	122.4	114.0	3.1	110.9	6.86
YEAR	253.3	121.1	112.8	3.1	109.7	6.88
% change from '86	2.6	2.6	2.7	-2.4	2.8	-2.06
1988:1	257.5	123.0	114.4	3.1	111.3	6.96
2	259.6	123.9	115.4	3.0	112.4	6.87
3	261.4	125.2	116.8	3.0	113.8	6.73
4	263.5	126.5	118.1	3.0	115.1	6.62
YEAR	260.5	124.7	116.2	3.1	113.1	6.79
% change from '87	2.9	2.9	2.9	0.0	3.1	-1.20

*Historical data.

1.41 HOUSING

See Table 1.41 - Page 17

1986 FORECAST DATA

Percent Change from October 1986 Forecast

+ 6.38%	Single Family Existing
+ 5.92%	Single Family New
- 2.47%	Permits
- 3.00%	Multiple Family Housing Starts
- 3.49%	Multiple Housing Starts
- 7.38%	Single Family Housing Starts

HOUSING IS WINDING DOWN

CONFIRMING KEDI'S LONG

STANDING PREDICTION.

Housing Starts & Permits Issued:

	Aug. 1986	Sept. 1986
Total	1.818	1.680
Single Family	1.199	1.116
Multi-Family	.619	.564

Total housing starts were down by 7.6% in September over August, with single-family units off by 5.5% and multi-family by 8.9% Another indicator of the downward trends is in the drop of permits issued: off in August by 4% over July and again in September by 3.6% over August.

KEDI calls for further declines in 1987, especially apartment housing. Look for a new housing cycle to start in late 1988, with 1988 apartment housing to be lower than 1987.

Prices of houses will go up in 1987 with mortgage rates down. The Administration policy is to keep pushing mortgage rates down to save the housing industry from a deeper slump.

TABLE 1.41
HOUSING
Quarterly data are seasonally adjusted at annual rates, unless otherwise stated.

INDICATOR Unit	Single family housing starts mil.	Multi-family housing starts mil.	Mobile home ship-ments mil.	Permits author-ized mil.	1-Fam. unit price new** tho. $	1-Fam. unit price exist** tho. $
Year & Qtr.						
1985*	1.072	.669	.283	1.735	101.0	90.3
1986:1*	1.257	.733	.274	1.839	103.4	91.8
2*	1.242	.663	.280	1.805	104.7	94.7
3	1.142	.621	.281	1.662	106.2	96.7
4	1.021	.603	.270	1.614	109.9	97.4
YEAR	1.165	.655	.276	1.730	106.1	95.2
% change from '85	8.7	-2.1	-2.4	-.3	5.0	5.4
1987:1	1.010	.604	.263	1.583	110.6	99.3
2	1.094	.647	.285	1.689	111.7	100.1
3	1.156	.685	.275	1.747	112.3	101.7
4	1.093	.621	.254	1.785	114.5	104.0
YEAR	1.088	.639	.269	1.701	112.3	101.3
% change from '86	-6.6	-2.4	-2.5	-1.7	5.9	6.4
1988:1	1.056	.632	.259	1.625	115.3	105.1
2	1.123	.687	.272	1.731	117.2	106.2
3	1.268	.674	.295	1.842	119.5	107.4
4	1.205	.665	.290	1.806	121.8	108.6
YEAR	1.163	.665	.279	1.751	118.5	106.8
% change from '87	6.9	3.9	3.6	2.9	5.5	5.5

*Historical data.
**Average. Not seasonally adjusted.

1.42 AUTOMOBILES

See Table 1.42 - page 19

1986
FORECAST
DATA

Percent Change
from
October 1986
Forecast

+ 5.00%	Imported Car Sales
+ 1.43%	Total Light Truck Sales
- 1.30%	Shipments
- 1.85%	Total Car Sales
- 4.49%	Domestic Car Sales
- 5.26%	Dealer Inventory

PRODUCTION AND SALES FOR PASSENGER CARS WILL BE DOWN IN 1987.

STRONG MARKET FOR LIGHT-DUTY TRUCKS WILL HELP KEEP AUTO MAKERS FROM A DEEPER SLUMP.

HEAVY-DUTY TRUCK DEMAND FOR 1987 WILL BE FLAT.

By the time the second half of 1988 comes rolling along the assembly lines, we will see some improvement in all three categories. KEDI's two year prediction of an auto slump through 1987 and into 1988 is coming to pass.

In 1987 expect prices of cars to go up an average of 6%, and in 1988 an additional 6.5%. There will be a weak market with low sales.

Do not expect too much from the anticipated spring and fall incentive programs in 1987. Effects of incentives have already dissipated--interest rates, in general are already too low, and prices cannot go any lower--ominous effects on profits for 1986 from the 2.9% financing fiasco in September and October.

TABLE 1.42
AUTOMOBILES
Quarterly data are seasonally adjusted at annual rates, unless otherwise stated.

INDICATOR	Total car sales	Car sales dom.	Car sales imp.	Dealer car inventory n.s.a. **	Factory car shipments	Total light truck sales
Unit	mil.	mil.	mil.	mil.	mil.	mil.
Year & Qtr.						
1985*	11.1	8.4	2.8	1.3	8.4	3.7
1986:1*	10.7	7.9	2.8	1.8	7.7	3.4
2*	10.7	7.7	3.0	1.7	7.9	3.6
3	11.5	8.2	3.3	1.5	8.0	3.7
4	10.6	7.2	3.1	1.8	7.6	3.4
YEAR	10.9	7.8	3.0	1.8	7.8	3.5
% change from '85	-2.0	-7.7	8.9	38.5	-7.1	-4.7
1987:1	10.3	7.4	2.9	1.9	7.5	3.3
2	10.6	7.5	3.1	1.8	7.4	3.5
3	11.0	7.7	3.3	1.7	7.8	3.7
4	10.5	7.2	3.3	1.8	7.7	3.7
YEAR	10.6	7.4	3.1	1.8	7.6	3.5
% change from '86	-2.5	-5.8	3.3	0.0	-2.6	.7
1988:1	10.3	7.0	3.3	1.9	7.6	3.3
2	10.8	7.7	3.1	1.8	7.9	3.5
3	11.4	8.0	3.4	1.7	8.1	3.7
4	11.2	7.9	3.3	1.7	8.0	3.8
YEAR	10.9	7.7	3.3	1.7	7.9	3.6
% change from '87	3.1	-.9	4.0	-5.6	3.9	.7

*Historical data.
**End of period data.

1.50 BUDGETS

See Table 1.50 - page 21

1986
FORECAST
DATA

Percent Change
from
October 1986
Forecast

+23.32%	Corp. Profit Tax Accrued
+11.24%	State Local Corp. Tax Accrued
+11.16%	Federal Income Tax
+ 8.99%	State Surplus/ Deficit
+ 7.29%	State Income Tax
-16.16%	State Surplus/ Deficit

FIRST EFFECTS OF TAX REFORM APPEAR IN 1986:4 WITH LARGER SALES AND INCREASE IN ORDERS FOR DURABLES:

* Businesses try to complete construction and equipment purchases before year end.

* Consumers are stimulated to buy durables before 1986 ends.

Some economists worry that orders for durables and consumers high-ticket purchases will abate in the new year. KEDI does not think so, and that durable orders will continue to increase:

* Improved perspectives of exporters due to positive effect of lower international value of the dollar.

* Low interest rates will stimulate firms to continue in capital outlays.

* Low interest rates will keep consumers' interest in buying durables (except cars) such as home furnishings, household appliances, building materials, and others.

TABLE 1.50
FEDERAL, STATE AND LOCAL BUDGETS
Quarterly data are seasonally adjusted at annual rates.

INDICATOR	*-----FEDERAL----------* Income taxes	Corp. profits tax accru.	Surplus /deficit	*---STATE AND LOCAL----* Income taxes	Corp. profits tax accru.	Surplus /deficit
Unit	bil. $	bil. $	bil. $	bil. $	bil. $	bil. $
Year & Qtr.						
1985*	350.8	67.7	-200.1	142.0	18.1	59.2
1986:1*	350.3	71.2	-201.6	147.2	17.5	70.0
2*	353.1	75.2	-238.1	151.7	18.1	59.0
3	365.9	77.1	-239.4	152.7	19.4	61.2
4	386.3	79.3	-219.6	155.0	20.4	63.2
YEAR	363.9	75.7	-224.7	151.6	18.9	63.4
% change from '85	3.7	11.8	12.3	6.8	4.1	7.0
1987:1	396.2	87.2	-190.3	158.4	20.1	65.3
2	401.5	92.1	-189.7	161.9	21.0	67.0
3	408.2	96.7	-185.6	165.3	21.4	70.5
4	410.3	98.4	-178.2	166.7	21.6	73.6
YEAR	404.1	93.6	-185.9	163.1	21.0	69.1
% change from '86	11.0	23.6	-17.2	7.5	11.5	9.1
1988:1	414.5	101.2	-176.5	168.2	22.0	71.4
2	418.4	103.2	-170.3	170.3	23.1	72.8
3	423.2	103.8	-165.2	172.1	23.4	73.5
4	428.7	105.6	-160.1	174.7	24.5	74.6
YEAR	421.2	103.5	-168.0	171.3	23.2	73.1
% change from '87	4.2	10.5	-9.6	5.1	10.6	5.8

*Historical data.

1.60 INCOME

See Table 1.60 - page 23

1986
FORECAST
DATA

Percent Change
from
October 1986
Forecast

+ 9.93%	Corp. After Tax Profit
+ 6.40%	Personal Income
+ 5.78%	Personal Disp. Income
+ 5.43%	Personal Savings
+ 5.26%	Comp. of Empl.
+ 3.47%	Average Weekly Earnings

MODERATE GROWTH OF PERSONAL INCOME AND PERSONAL DISPOSABLE INCOME ARE PREDICTED FOR 1987 - 1988.

U. S. Department of Commerce calculates Personal Savings as Personal Disposable Income minus Personal Consumption Expenditures and some small items. It does not take into account:

* Increase in income from loans.
* Increase of savings because of appreciation of equities and net work.
* Some other items.

Thus, the U. S. Commerce Department data on Personal Savings may be misleading. For example, September increase in sales of cars is reported as increase in SALES of cars--that's right! However, Personal Disposable Income has not been raised by the amount of credit extended to buyers. So, PDI is reported unadjusted, but personal consumption of the PDI is recorded as full consumption. This is the reason for the seemingly SHARP decline in Personal Savings.

TABLE 1.60
INCOME
Quarterly data are seasonally adjusted at annual rates.

INDICATOR	Pers. income	Pers. disp. income	Comp. of empl.	Corp. after tax profits	Pers. saving	Avg. week earn.
Unit	bil. $	bil. $	bil. $	bil. $	bil. $	$
Year & Qtr.						
1985*	3314.5	2828.0	2368.2	131.4	143.3	382.0
1986:1*	3444.3	2946.8	2461.5	135.2	145.6	391.2
2*	3489.3	2984.5	2476.9	138.0	153.1	393.9
3	3501.6	2983.0	2487.3	142.1	87.5	393.7
4	3502.4	2961.1	2521.6	144.9	150.2	398.0
YEAR	3484.4	2968.8	2486.8	140.1	134.1	394.2
% change from '85	5.1	5.0	5.0	6.6	-6.4	3.2
1987:1	3651.9	3097.3	2567.3	150.2	154.0	400.1
2	3697.8	3134.4	2602.2	155.7	160.2	407.2
3	3758.5	3185.0	2656.3	158.2	163.7	410.1
4	3821.5	3244.5	2707.4	161.0	166.5	415.3
YEAR	3732.4	3165.3	2633.3	156.3	161.1	408.2
% change from '86	7.1	6.6	5.9	11.6	20.1	3.5
1988:1	3888.9	3306.2	2764.3	160.3	168.9	417.2
2	4026.3	3437.6	2799.7	164.7	172.4	420.5
3	4070.3	3475.0	2863.5	167.5	176.3	424.3
4	4301.4	3698.0	2910.4	171.2	180.5	426.1
YEAR	4071.7	3479.2	2834.5	165.9	174.5	422.0
% change from '87	9.1	9.9	7.6	6.2	8.3	3.4

*Historical data.

1.70 MONEY AND CREDIT

See Table 17.0 - page 25

1986
FORECAST
DATA

Percent Change
from
October 1986
Forecast

+ 9.93%	Time Deposits
+ 7.60%	Currency & Demand Deposits
+ 6.32%	Consumer Install. Credit
+ 5.68%	Comm. & Indust. Loans at Banks
+ 1.69%	Large Denom. Time Deposits
- 1.22%	Mortg. at S & L Assns.

DATA, AGAIN, SHOW NO RELATIONSHIP BETWEEN THE MONEY SUPPLY, M1, AND ECONOMIC GROWTH.

Forecast for money supply, M1, calls for 11.8% growth in 1986 and 7.5% in 1987 over 1986. This is compared to the expected 5.4% growth in the nominal GNP in 1986, and 5.2% growth in 1987.

KEDI agrees with Fed's deemphasizing the M1 as a guide for short-run policy actions. In our October issue, KEDI outlined the reasons why, in the current phase of the cycle, there is no relationship between M1 and nominal GNP (change the banking regulations, change in the U.S. Banking system, facts of recent history: large Federal deficits vs. declining inflation and rapid increase in money supply etc.)

Another reason why the growth of the money supply, M1, cannot be compared to GNP is because M1 serves the ENTIRE ECONOMY, that is, it serves the area of FINAL products (GNP) and the area of INTERMEDIATE products. In the present economic conditions, GNP represents 50% of the economy, with the other half made up of intermediate products. Often the GNP behaves differently than INTERMEDIATE products. This is why M1 cannot be used as a guideline when it represents only one half of the economy.

TABLE 1.70
MONEY & CREDIT

Data for "Currency and demand deposits, M1", and "Time deposits, adjusted, M2" are averages of daily figures; other data are end of period figures.

INDICATOR	Currency and demand deposits M1, s.a.	Time deposit adjust. M2,s.a.	Cons. instal. credit s.a.	Comm.& indus. loans at banks s.a.	Large denom. time dep. s.a.	Mortg. at S & L Assns. n.s.a.
Unit	bil. $	bil. $	bil. $	bil. $	bil. $	bil. $
Year & Qtr.						
1985*	593.6	2484.0	535.1	493.9	436.5	586.1
1986:1*	629.8	2581.3	551.5	502.1	450.4	577.0
2*	657.8	2645.7	572.9	508.0	449.7	589.7
3	679.6	2731.5	592.8	512.0	450.1	598.1
4	686.9	2782.3	595.7	519.6	451.2	611.2
YEAR	663.5	2685.2	595.7	519.6	451.2	611.2
% change from '85	11.8	8.1	11.3	5.3	3.4	4.3
1987:1	692.8	2860.5	604.9	527.1	457.4	617.4
2	710.4	2918.6	611.3	534.0	460.3	625.6
3	721.6	2985.4	624.5	539.5	467.5	633.1
4	729.5	3040.2	632.4	547.3	470.2	638.6
YEAR	713.6	2951.2	632.4	547.3	470.2	638.6
% change from '86	7.5	9.9	6.2	5.3	4.2	4.5
1988:1	736.4	3104.5	640.7	550.2	472.1	641.2
2	743.2	3162.7	650.1	553.4	474.6	643.5
3	749.7	3241.5	664.3	556.1	478.2	650.4
4	758.8	3306.4	675.5	560.2	483.6	658.7
YEAR	747.0	3203.8	676.5	560.2	483.6	658.7
% change from '87	4.7	8.6	7.0	2.4	2.8	3.1

*Historical data. n.s.a: not seasonally adusted.
s.a.: seasonally adjusted at annual rates.

1.80 INTEREST RATES, YIELDS, AND SECURITIES PRICES

See Table 1.80 - page 27

1986 FORECAST DATA

Percent Change from October 1986 Forecast

+ 5.28%	S & P's 500 Avg.
-10.20%	Aaa Corp. Bond Rate
-11.40%	Conv. Mortg. Rate
-12.12%	Prime Rate
-13.92%	Treas. Bills 3 mo. Yield
-20.96%	20 yr. Govt. Bonds Yield

KEDI ANTICIPATES INTEREST RATES WILL BOTTOM OUT IN THE THIRD QUARTER OF 1987.

Chase Econometrics calls for a cyclical low in 1986:4, and Data Resources in 1987:1.

3 MO. TREASURY BILLS (Comparison)

	Chase	DRI	KEDI
1986:4	5.30%	5.23%	5.80%
1987:1	5.30%	5.08%	5.63%
1987:2	5.50%	5.20%	5.45%
1987:3	5.70%	5.37%	5.20%
1987:4	5.70%	5.60%	5.24%

* KEDI forecast data show that in 1987 the economy, especially manufacturing, will still not be strong enough to allow interest rates to go up with such weaknesses as automobiles, housing, slow recuperation of exports, and high imports.

* The combined impact of higher interest rates and new tax legislation that is less favorable to business would create problems in the business sector. KEDI feels the FED would not allow this to happen.

* Major trading countries have adopted LOWER INTEREST RATE policies. It would be illogical to suddenly start increasing interest rates in the U.S. economy.

TABLE 1.80
INTEREST RATES, YIELDS & SECURITIES PRICES
Quarterly averages of monthly figures.

INDICATOR	Treas. bills 3 mo. yield	Prime rate	Conv. mortg rate	Aaa corp. bond rate	20 yr. Govt. bonds yield	S & P's 1941-43 500 Avg
Unit	%	%	%	%	%	%
Year & Qtr.						
1985*	7.48	9.43	12.68	11.32	10.88	186.84
1986:1*	7.01	9.41	11.13	9.74	9.01	221.72
2*	6.14	8.52	10.26	9.00	7.67	240.58
3	6.01	7.68	9.74	8.86	6.93	245.11
4	5.80	7.50	9.67	8.68	6.85	250.36
YEAR	6.24	8.28	10.20	9.07	7.62	239.44
% change from '85	-16.6	-12.2	-19.6	-19.9	-30.0	28.2
1987:1	5.63	7.38	9.55	8.31	6.55	248.85
2	5.45	7.26	9.11	8.19	6.11	250.81
3	5.20	7.22	8.85	8.08	5.72	253.77
4	5.24	7.28	8.64	7.89	5.68	255.46
YEAR	5.38	7.29	9.04	8.12	6.01	252.22
% change from '86	-13.8	-12.0	-11.4	-10.5	-21.0	5.3
1988:1	5.26	7.32	8.60	7.81	5.62	251.31
2	5.31	7.38	8.63	7.92	5.74	256.27
3	5.42	7.51	8.75	8.04	5.83	260.32
4	5.67	7.59	8.89	8.12	5.92	263.54
YEAR	5.42	7.45	8.72	7.97	5.78	257.86
% change from '87	.7	2.3	-3.5	-1.8	-3.9	2.2

*Historical data.

2.00 COMPARISONS OF ACCURACY OF PREDICTIONS

In this issue, Private Housing Starts has been selected for comparison. The actual figure appears in the Survey of Current Business, August 1986 issue, blue pages (monthly, U. S. Department of Commerce, Washington, D.C.). Forecast data are in Business Forecasts 1985 (Federal Reserve Bank of Richmond, Virginia, February 1985). The following table shows the predictions of forecasters and deviations of forecast data.

TABLE 2.00

COMPARISONS OF ACCURACY OF PREDICTIONS
Private Housing Starts (mil. units)
Actual figure: 1.742

Forecaster (and page in source)	Date of Forecast	Forecast	Accuracy %
Georgia State Univ., p. 15	11/84	1.648	- 5.4
First Interstate Bank of Calif., p.16	11/19/84	1.660	- 4.8
Harris Bank, p. 16	11/19/84	1.710	- 1.9
American Statistical Assn. and Nat'l Bureau of Economic Research, p. 17	12/84	1.660	- 4.8
Core States Financial Corp.*, p. 18	12/84	1.613	- 7.5
Mellon Bank, p. 19	12/84	1.677	- 3.8
U.S. Chamber of Commerce, p. 20	12/84	1.800	+ 3.3
UCLA Business Forecasting Project, p. 22	12/13/84	1.757	+ .8
Alex A. Burkholder, WLS-TV-ABC, Chicago, IL, p. 23	12/15/84	1.500	-13.9
Fidelity Bank, p. 25	12/20/84	1.740	- .2
Evans Economics, p. 26	12/21/84	1.720	- 1.3
Data Resources, p. 27	12/23/84	1.846	+ 5.9
Chase Econometrics	12/26/84	1.590	- 8.8
Manufacturers Hanover Trust, p. 29	12/26/84	1.807	+ 3.7
Wharton Econometric Forecasting Associates, p. 30	12/26/84	1.800	+ 3.3
The Journal of Business Forecasting, p. 31	1/85	1.660	- 5.3
Kent Economic and Development Institute, p. 32	1/1/85	1.633	- 6.3
First Nat'l Bank of Chicago, p. 33	1/7/85	1.713	- 1.7
Morgan Guaranty Trust Co., p. 34	1/10/85	1.874	+ 7.5
Standard & Poor's Corp., p. 35	1/10/85	1.846	+ 5.9
Merrill Lynch Economics, p. 36	1/14/85	1.728	- .9
Chemical Bank, p. 37	1/15/85	1.680	- 3.6
The Equitable Life Assurance Society of the U.S., p. 38	1/15/85	1.780	+ 2.1
Shearson Lehman/American Express, p. 39	1/15/85	1.593	- 8.6
Money Market Services, Inc.	1/22/85	1.660	- 4.8
Armco, Inc.	1/24/86	1.645	- 5.6

* Calculated as average of four quarterly data.

3.00 HISTORICAL DATA SOURCES

For reader's convenience listed below are sources of historical data series for the forecasts appearing in the Survey. The first column of the following table refers to the table in this Survey, the second column to the name of forecast series, and the third column identifies the source of historical data. The sources are: **Survey of Current Business** referred to as SCB (monthly, U. S. Department of Commerce, Washington, D.C.), **Federal Reserve Bulletin,** FRB, (Board of Governors of the Federal Reserve System, Washington, D.C. monthly), **Index of Industrial Production,** G.12.3 Release, IIP, (Board of Governors of the Federal Reserve System, Washington, D.C., monthly.)

TABLE 3.00

HISTORICAL DATA SOURCES

Table Number	Data Series	Source
1.11 Selected Indicators of Real Growth I.	Gross national product, 1982 $	SCB, Table 1.2
	Index of industrial production	IIP, p. 2.
	Unemployment rate	SCB, Blue pages
	Capacity utilization rate	FRB, Table 2.11
	Private housing starts	SCB, Blue pages
	Car sales	SCB, Blue pages
1.12 Selected Indicators of Real Growth II.	Personal Cons. expend: Durables,	SCB, Table 1.1
	Nondurables	SCB, Table 1.1
	Services	SCB, Table 1.1
	Retail sales: Total	SCB, Blue pages
	Durables	SCB, Blue pages
	Nondurables	SCB, Blue pages
1.12 Real GNP	Gross national product, 1982 $	SCB, Table 1.2
	Personal consumpt. expenditures	SCB, Table 1.2
	Gross private dom. investment	SCB, Table 1.2
	Net exports	SCB, Table 1.2
	Federal purchases	SCB, Table 1.2
	State and local purchases	SCB, Table 1.2
1.21 Prices	Consumer price index	SCB, Blue pages
	Producer price index	SCB, Blue pages
	Implicit price deflators: GNP	SCB, Table 7.1
	Personal consumpt. expenditures	SCB, Table 7.1
	Federal purchases	SCB, Table 7.1
	State and local purchases	SCB, Table 7.1
1.22 Nominal GNP	Gross national product	SCB, Table 1.1
	Personal consumpt. expenditures	SCB, Table 1.1
	Gross private dom. investment	SCB, Table 1.1
	Net exports	SCB, Table 1.1
	Federal purchases	SCB, Table 1.1
	State and local purchases	SCB, Table 1.1

(Table 3.00 continues on the following page.)

TABLE 3.00

HISTORICAL DATA SOURCES (CONTINUED)

Table Number	Data Series	Source
1.30 Employment and Labor	Population	SCB, Blue pages
	Civilian labor force	SCB, Blue pages
	Employment	SCB, Blue pages
	Agriculture	SCB, Blue pages
	Non-agriculture	SCB, Blue pages
	Unemployment rate	SCB, Blue pages
1.41 Housing	Single-family housing starts	SCB, Blue pages
	Multifamily housing starts	SCB, Blue pages
	Mobile home shipments	SCB, Blue pages
	Permits authorized	SCB, Blue pages
	1-family unit price, new	FRB, Table 2.14
	1-family unit price, existing	FRB, Table 2.14
1.42 Autos	Passenger cars: Total sales	SCB, Blue pages
	Domestic	SCB, Blue pages
	Imported	SCB, Blue pages
	Dealers inventories	SCB, Blue pages
	Factory shipments	SCB, Blue pages
	Light-duty truck sales	SCB, Blue pages
1.50 Federal State & Local Budgets	Federal govt: Income taxes	SCB, Table 3.2
	Corporate profit tax accruals	SCB, Table 3.2
	Surplus/Deficit	SCB, Table 3.2
	State & local govt:Income taxes	SCG, Table 3.3
	Corporate profit tax accruals	SCG, Table 3.3
	Surplus/Deficit	SCB, Table 3.3
1.60 Income	Personal income	SCB, Table 2.1
	Personal disposable income	SCB, Table 2.1
	Compensation of employees	SCB, Table 1.11
	Corporate after tax profits	SCB, Table 1.11
	Personal saving	SCB, Table 2.1
	Average weekly earnings	SCB, Blue pages
1.70 Money and Credit	Currency and demand deposits, M1	FRB, Table 1.21
	Time deposits, adjusted, M2	FRB, Table 1.21
	Consumer installment credit	FRB, Table 1.55
	Commercial and industrial loans	FRB, Table 1.23
	Large denomination time deposits	FRB, Table 1.21
	Mortgages at S&L Associations	FRB, Table 1.54
1.80 Interest Rates, Yields, & Securities Prices	Treasury bills (3 mo) yield	FRB, Table 1.35
	Prime rate	FRB, Table 1.33
	Conventional mortgage rate	SCB, Blue pages
	Aaa corporate bonds rate	FRB, Table 1.35
	20 years government bonds yield	FRB, Table 1.35
	Standard & Poor's 500 average	FRB, Table 1.36